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SUBJECT: FINANCE MINISTER DISCUSSES CHALLENGES FACING
BANGLADESH ECONOMY

Classified By: CDA Judith Chammas; reason 1.4(d)

1. (C) Summary: Finance Minister Rahman told CDA he is satisfied with the economy's performance in FY05. He cited several factors, including continued high oil prices, which may adversely affect the economy going forward. End summary.

2. (U) CDA Judith Chammas paid a courtesy call on Finance Minister Saifur Rahman on August 8, accompanied by econoff (note taker). The 30-minute meeting focused principally on the economy.

3. (C) Rahman dismissed press reports that he had described the economy as "in crisis." He acknowledged, however, that several factors are putting pressure on the economy and the government's budget. Chief among these is high oil prices, which have increased pressure on foreign exchange reserves and driven up the cost of government fuel subsidies. Rising costs of other commodities, especially fertilizer and scrap metal, and increased food imports to offset lower production following last year's flood, have had a similar impact.

4. (C) Even good news creates problems. Industrial growth is nearing eight percent; however, it has contributed to a surge of capital goods imports. Despite strong export growth, imports are growing faster, as is the trade deficit. Remittances, which traditionally offset the trade deficit, have slowed, adding to pressure on foreign currency reserves. Reflecting these pressures, the taka has depreciated by 10% this year against the dollar. Inflation at 6.6% remains low by regional standards but is edging up.

5. (C) Rahman admits these pressures are taking a toll on the budget, noting an increase in the projected fiscal deficit for FY06. Moreover, it is increasingly difficult for the BDG to meet IMF and World Bank fiscal targets. Rahman said failure to meet some benchmarks triggered a 35% decline in World Bank development support credits. The loss of these funds, coupled with diversion of revenues for food and oil imports, is crowding out developments funds, Rahman said.

6. (C) On anti-money laundering and terrorism financing, Rahman expects the Law Ministry to complete shortly formalities for the deposit of the instruments of accession to the UN Convention on the Suppression of the Financing of Terrorism. He is reviewing draft amendments to the anti-money laundering law and is working with the Law Ministry to strengthen the enforcement provisions.

CHAMMAS